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SUBJECT: FRANCE'S PHARMACEUTICAL INDUSTRY SAYS BIOTECH, GENERICS KEY
TO COMPETITIVENESS

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11. (U) Summary: Lack of innovation, due in part to pricing and information controls, has caused the French pharmaceutical industry, once a world leader, to fall behind its competitors. The French government has taken steps to support the industry, rewarding innovators and promoting research and development through tax incentives. But the French pharmaceutical industry wants to convince the GOF that France can become a major center of biotechnological research and development, and the EU's leading generics producer. The pharmaceutical industry association LEEM, which includes U.S. companies, told us recently that U.S. firms willing to invest in biotechnology in France would be welcomed with open arms. End summary.

FRENCH PHARMACEUTICALS INDUSTRY: A SNAPSHOT

12. (U) Historically one of Europe's premier prescription drug producers, the French pharmaceutical industry has witnessed slowing growth, down to 3% in 2007 from double-digit growth rates in the 1990s. Following the removal of 400 products from the GOF's reimbursable medicines list in an effort to cut healthcare spending, sales of reimbursable medicines fell for the first time in a decade. With one of the highest per capita consumption rates of medicines in the world, France has also sought to reduce pharmaceuticals expenditures by curbing prescription drug use, which in the recent past has accounted for 20 percent of healthcare spending.

13. (SBU) Claude Bouge, Economic Affairs Director of the French Pharmaceuticals Association LEEM, told us that although the current pharmaceuticals market is "not magnificent," experiencing slowing sales and a loss of attractiveness, the health sector is high value-added and remains one of France's major assets. He warned, however, that unless the government acts quickly on a number of measures to bolster the pharmaceuticals industry, the sector could witness a significant decline in the years to come. Bouge noted the growing number of layoffs of sales representatives (Pfizer recently let go 500 employees in France out of a total of 3,000 staff) as evidence of current big pharma challenges. Bouge welcomed President Sarkozy's move to increase tax incentives in favor of research and development (see para 4), but cautioned that the French Government needed to go further, or watch its six-billion euro trade surplus plunge to what trend lines indicate could become a five-billion euro trade deficit within the next five years.

EFFORTS TO INCREASE INNOVATION, IMPROVE R&D IN FRENCH
PHARMACEUTICALS

14. (SBU) While general drug consumption remains high, regulations in the pharmaceuticals industry, such as a complex and unpredictable tax system that punishes growth and, potentially, innovative companies, have delayed the introduction of more innovative medicines. Following the lead of the EU, former Prime Minister Jean-Pierre Raffarin and industry leaders initiated a Strategic Council for Health Industries (Conseil Stratgique des Industries de

Sant - CSIS) in 2004 to promote France's attractiveness, particularly in the biotech sector, through an annual meeting of all health stakeholders, both public and private. These meetings have succeeded in speeding up the process of introducing pharmaceutical products on the French market. The CSIS has also played a role in influencing the GOF to introduce, and increase, tax incentives in favor of research and development. Industry associations, such as AGIPHARM (Association des Groupes Internationaux pour la Pharmacie de Recherche), an association of North American pharmaceutical companies established in France, are also advocating for increased research and development budgets, and a policy environment more favorable to innovation.

¶5. (U) The GOF's tax incentives to promote research and development are at the heart of the current policy to improve France's competitiveness. The research tax credit ("Credit impot-recherche") has been multiplied by 1.6 between 2007 and 2008, bringing the total cost of the scheme to some 3.3 billion euros in 2008, according to Ministry of the Economy forecasts. Large companies of more than 10,000 employees will receive some 39 percent of that sum.

RESTORING THE COMPETITIVENESS OF FRANCE'S PHARMACEUTICALS MARKET

¶6. (SBU) In addition to the research tax credit and creation of the CSIS, the French government has accelerated market authorization for medicines, from most to least innovative, and taken steps to expand the generics market in an effort to boost industry competitiveness. However, LEEM's Economic Affairs Director Bouge says that if France is to remain competitive, the government must improve the innovation environment for the biotech sector. (American biotech firms would "receive the red carpet treatment" were they to invest in France, he said.)

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On generics, Bouge said that although only one in five reimbursable drugs in France is generic, compared to 60% and 70% in Germany and the UK respectively, the GOF has been pursuing an aggressive generics policy that has produced results in a short period of time.

Comment

¶7. (SBU) Despite complaints on tax policy, our conversations indicate the pharmaceutical industry does not/not believe the GOF intends to balance its health care books on the back of pharmaceutical companies. The industry rep with whom we met spoke convincingly of a government that understands that a thriving pharma sector is important to the country's long-term interests. Given ongoing budgetary pressures though, we can expect continued differences between industry (including U.S. pharmaceutical companies) and the GOF over the valuation of innovation as captured in GOF reimbursable medicines policy.

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